

Petroleum Development Authority of Sri Lanka - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Petroleum Development Authority of Sri Lanka for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process. As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required

to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Policies

Audit Issue	Management Comment	Recommendation
(a) As per the policy No. 10 of the financial statement, the Audio video system should be depreciated at the rate of 20 percent, however, rate applied for depreciation was 10 percent. As a result, the depreciation had been understated by Rs.5, 485,855 in the year 2022 Therefore, the provision for depreciation of above item had been understated and accumulated fund was overstated by the said amount.	Agree with the observation. It is advised relevant officers to adjust depreciation amount in financial statements.	Financial Statements should be prepared in accordance with policies of financial statement and requirement of the standard.
(b) According to the note No 13 in statement of financial position, it is stated that the asset of petroleum data purchase is reviewed for impairment within 10 years by a decision of Board of Directors, since it is not generating any income for last few years. However, no impairment test had been carried out for the amount of Rs.	The asset petroleum data purchase is reviewed for impairment within 10 years, since it is not generating any income to PDASL during past years	Impairment test should be carried out in compliance with policy of the financial statement and requirement of the standard.

926,500,000 of the petroleum data purchase asset.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) When calculating the provision for gratuity, the annual increment to the basic salary had not been considered and inaccurate cost of living allowances had been taken for calculation. Therefore, gratuity expenditure and provision for gratuity has been understated by Rs. 628,914.	Agree with the observation. It is advises relevant officers to correct the undervalue amount of gratuity in financial statements.	Calculation of provision for gratuity should be based on accurate information and in compliance with the requirement of the standard.
(b) Staff loan settlement against the gratuity payable amounting to Rs. 227, 000 had not been accounted in the ledger accounts. Therefore, staff loan and provision for gratuity accounts had been overstated by the same amount.	Agree with the observation. It is advises relevant officers to correct the undervalue amount of gratuity in financial statements	Ledger accounts should be adjusted in accordance with transaction or events happened.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
The treasury provided a loan for a sum of Rs. 926.5 million to the Petroleum Resources Development Secretariat under treasury sub-loan No. 20060400 for the purchase of petroleum data from Manner, Norway Company in year 2006. Under the provisions of the Petroleum Resources Act No. 21 of 2021, the Petroleum Resources Development Secretariat was reconstituted as the Petroleum Development Authority of Sri Lanka. Accordingly, by October 8, 2021, when the Sri Lanka the Petroleum Development Authority was incorporated, the treasury sub-loan balance amounting to	The loan will be recovered if PDASL could generate the required income in 2026	Information (Eg. Conditions of the loan agreements, Income generated, expected income, users of data information, prospective bidders, etc.) in relating to this matter should be forwarded to the Board of Directors to get appropriate decisions.

Rs. 243.68 million had become a liability of the Authority. In accordance with the treasury operations department's letter No. TO/REV/SL/2/91 dated 01 July 2022, it was stated that the treasury sub-loan should be settled using 10 percent of the annual income of the Sri Lanka Petroleum Development Authority, and that the loan must be fully repaid on or before 31 December 2026. However, the Authority had paid only Rs. 21.51 million of the loan from 2021 to 31 December 2024, and the remaining balance of Rs. 222.17 million is scheduled to be paid in 2025 and 2026.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Guidelines of the 3.2 on Corporate Governance for State-Owned Enterprises 2021	The Authority is mandated to conduct an Annual Performance Review Meeting (APRM) each year. However, the Authority had not conducted the APRM for the year 2023.	After finalizing the annual report 2024, it will be presented at the annual performance review meeting (APRM)	It should be complied with the requirements of Guidelines.
(b) Guidelines of the 4.2 (h) on Corporate Governance for State-Owned Enterprises 2021	The Audit Committee (AC) should meet at least once in three months and report its recommendation to the Board of Directors soon thereafter, along with the minutes of the meeting to facilitate taking corrective measures. However, the AC had not been held for the year 2024.	Agree with the Observation	It should be complied with the requirements of Guidelines.
	The Authority had not maintained manuals for all	Agree with the Observation	It should be complied with the requirements

- (c) Guidelines of the 2.3 major activities properly. of Guidelines.
and supplementary III
of the Corporate
Governance for State-
Owned Enterprises
2021
- (d) Section 2(a) and 14(1) One objective of the With all due respect we Information (Eg.
of the Petroleum authority is to establish a believe that the policy Progress reason for
Resources Act No. 21 Policy Advisory advisory committee needs delay, etc.) in relating
of 2021, Committee to advise on to be appointed by the Hon. to this matter should
formulation of a National Minister of Energy be forwarded to the
Policy for the upstream Board of Directors to
petroleum industry get appropriate
covering the exploration, decisions.
development, production,
and management of all
petroleum resources in Sri
Lanka. However, policy
adversary committee had
not been established yet.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to expenditure over income of Rs. 162,853,438 and the corresponding expenditure over income in the preceding year amounted to Rs. 114,671,819. Therefore, a deterioration amounting to Rs. 48,181,619 of the financial result was observed. The main reasons for the deterioration were increase of administration and establishment expenses by Rs. 80,664,857 compared to the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease and the results were as follows.

Line Item	2024 Rs.000'	2023 Rs.000'	Variance Rs.000'	Percentage %
Imprest	24,133	8,600	15,533	181
Other Income	1,390	6,920	(5,530)	(80)
Foreign Exchange Gain/Loss	(7,312)	(22,436)	(15,124)	67
Administrative & Establishment Expenses	177,581	96,917	80,665	83

Finance and Other Expenses	3,483	10,840	(7,356,)	(68)
Income over expenditure	(162,853)	(114,672)	(48,182)	42

2.3 Ratio Analysis

The rates for three years are as follows

Ratios	2024 %	2023 %	2022 %
Net Profit/ Loss Ratio	-674.82	-1333.39	-15.74
Current Ratio	11.59	6.93	6.55
Return on Assets (ROA)	-15.74	-9.59	-1.01
Debt Equity Ratio	0.32	0.3	0.28

3. Operational Review

3.1 Operational Management

Audit Issue

Petroleum Data purchase of Rs.926.5 million represents survey data of the exploration of petroleum resource in the Mannar basin of Sri Lanka obtained with the agreement of TGS-NOPEC Geophysical Company ASA in Norway and Ceylon Petroleum Corporation in 2001. This value represents the amount paid by the Government of Sri Lanka to acquire the data obtained from the above foreign company in year 2006. This data was maintained as non-current assets of Petroleum Development Authority. Further, this data was also stored in a foreign company as a data security measure by incurring an annual fee of Rs. 345,321. In the year 2021, the Authority had generated Rs. 223.43 million as revenue from sale of this petroleum data. However, no income was generated for the years 2022, 2023 and 2024.

Management Comment

Agree with the observation. It is hoped to sell petroleum data during the Mannar Basin licensing round marketing campaign, which is scheduled to be held in 2026.

Recommendation

Information (Eg. Income generated, expected income, users of data information, prospective bidders, etc.) in relating to this matter should be forwarded to the Board of Directors to get appropriate decisions.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>Approved cadre of the authority as of 31st December 2024 was 33 post. But the Key positions such as Director Finance, Director Legal and Compliance, Manager Human Resources included in the cadre approved by the Department of the Management Services had been vacant since 2021. Further, the actual staff and numbers of vacancies were 6 and 27 respectively, as of August 2025. As a result, the key activities in the action plan could not be achieved as expected by the Authority.</p>	<p>Approved Cadre of the authority as 31st December 2024 is 35. Cabinet Approval has been granted to recruit nine staff including the positions named.</p>	<p>At least, approvals to recruit key post should be taken from relevant authority and act accordingly</p>